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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 003180

SIPDIS

CENTCOM/EUCOM FOR POLADS
BAGHDAD FOR KEVIN TAECKER
TREASURY FOR LARRY MCDONALD

E.O. 12958: DECL: 06/06/2015

TAGS: EFIN PREL EPET IZ TU

SUBJECT: TURKS COMPLAIN SOMO STIFFING TURKISH OIL COMPANIES
FOR \$840 MILLION

Classified By: Economic Counselor Thomas Goldberger for reasons 1.4 b & d.

¶1. (C) Summary: Turkey's Coordinator for Iraq Reconstruction, Ambassador Koray Targay, says the Iraqi Central Bank has stopped making payments to the 16 Turkish energy companies providing refined products to SOMO because of a lack of cash. The MFA fears that the over \$800 million in arrears threatens future supplies and poses a security problem for Iraq. Turkey's largest fuel provider to Iraq said the problem was that Kurdish-connected "intermediaries" were demanding a fee. End Summary.

¶2. (SBU) Targay told Econ/C SOMO is far behind in payments to the 16 Turkish energy companies providing refined products for Iraq and is behind on payments for refined products from Kuwait and Jordan. Targay said the debt owed by SOMO to the Turkish companies reached \$840 million and that Prime Minister Erdogan raised the problem with Iraqi Prime Minister Jafari during his recent visit to Turkey. Targay understood that SOMO and the Oil Ministry had approved the payments but the Central Bank told the Turkish embassy that it did not have the cash. Targay emphasized that the arrears had reached such a huge level that the financial viability of the private companies was at risk. This could force the companies to stop deliveries, which could contribute to insecurity in Iraq. Indeed, Targay said officials at the Habur Gate border crossing reported a decline in the number of SOMO-bound trucks crossing into Iraq from 400 per day a few weeks ago to 280-290 per day currently.

¶3. (SBU) On a secondary but related issue, Targay said the annual legal agreement between SOMO and the Turkish companies under which this trade is conducted expires at the end of June. Targay said the Turkish suppliers met last week in Istanbul and asked SOMO to send a representative to discuss the payment problem and renew this "fundamental document," which is essential for the Turkish companies. But according to Targay, SOMO responded that it was too busy to meet in June, which Targay found incomprehensible given the importance of the matter.

TPIC Says Intermediaries Behind Payment Problem

¶4. (SBU) We followed up with SOMO's largest supplier in Turkey, Turkish Petroleum International Company (TPIC), the trading arm of the national oil company TPAO. TPIC was instrumental in meeting SOMO's needs in the early days of the interim government, when SOMO took over from KBR the task of importing refined products for Iraq. SOMO Vice President Sadi Gungor told us that SOMO is behind on payments to TPIC to the tune of \$150 million -- \$650 million to all the Turkish firms. (Comment: The \$840 million cited by Targay probably included the total amount SOMO owes for fuel delivered to Iraq, while Gungor was probably talking about payments in arrears only.)

¶5. (C) Gungor explained that the arrears put the Turkish companies in a difficult financial situation because they have already paid for the fuel delivered to Iraq, which is purchased on the international market. Gungor said that TPIC will not stop making deliveries to Iraq, because "we are a state company" and GOT officials have intervened to urge TPIC to continue the deliveries. However, Gungor expected that some of the private companies could not afford to continue deliveries without receiving some payments. Gungor said the real reason for the payment stoppage was the involvement of "intermediaries," who were demanding a commission to facilitate the payments. Gungor stressed that TPIC will not agree to deal with the intermediaries, who he hinted were connected to Kurdish figures in Iraq.

Comment

¶6. (C) The Turks are not asking us to solve this issue for them. In fact, in the positive spirit following Jafari's visit, the Turks are trying to find a constructive way to deal with the issue and have been proactive both in their meetings with Jafari and in Baghdad. Their preferred

approach is to move to a letter of credit system, but Targay acknowledged that this would take time. Any way the U.S. could be helpful, such as by encouraging SOMO to conclude a new agreement (the Iraqis may not appreciate the stock the Turks put in "legal" documents) or by helping the CBI find the cash flow to draw down arrears, would seem to serve both Turkish and U.S. interests in stability in Iraq. We are not able to rank this among all the other Iraq priorities, but it seems consequential from post's perspective.

MOORE